

**REPORT ON
MULTI-STATE EXAMINATION
AS TO THE CONDITION
OF
SELECTIVE INSURANCE COMPANY OF AMERICA**

As of December 31, 2007

NAIC Company Code 12572
NAIC Group Code 0242

F I L E D

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**COMMISSIONER
NJ DEPT OF BANKING & INSURANCE**

**Selective Insurance Company of America
Financial Examination as of December 31, 2007**

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February 11, 2009

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23218

Honorable Julie McPeak
Secretary, Southeastern Zone NAIC
Kentucky Office of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Honorable Merle D. Scheiber
Secretary, Midwestern Zone NAIC
South Dakota Division of Insurance
Dept. of Revenue and Regulation
445 East Capital Avenue, 1st Floor
Pierre, South Dakota 57501

Honorable Kent Michie
Secretary, Western Zone NAIC
Utah Department of Insurance
3110 State Office Building
Salt Lake City, Utah 84114

Honorable Steven M. Goldman
Secretary, Northeastern Zone NAIC
New Jersey Dept. of Banking and Insurance
20 West State – CN 325
Trenton, New Jersey 08625

Commissioners:

In compliance with your instructions and pursuant to Insurance Laws and Rules of the State of New Jersey, a comprehensive risk focused examination has been made of the books, records and financial condition of

**Selective Insurance Company of America
40 Wantage Avenue
Branchville, New Jersey 07890**

hereinafter referred to as the “Company”, “SICA” or “Selective”. The following examination report as to the condition of the Company is respectfully submitted.

SCOPE OF THE EXAMINATION

The New Jersey Department of Banking and Insurance, hereinafter referred to as the “NJDOBI” or “We”, have performed a full scope coordinated multi-state risk focused examination of Selective, as the Lead State. The New York and Maine Departments of Insurance participated in this examination. This examination covers the period of January 1, 2003, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The principal portion of the examination was conducted at the Company’s statutory home office in Branchville, New Jersey.

The Company was last examined by representatives of the NJDOBI as of December 31, 2002. The current examination was conducted concurrent with the examinations of its affiliates, Selective Way Insurance Company (SWIC), Selective Insurance Company of New York (SICNY), Selective Insurance of New England (SICNE), and Selective Auto Insurance Company of New Jersey (SAICNJ). Subsequent to the start of the examination, two of the Company's affiliates, Selective Insurance Company of South Carolina (SICSC) and Selective Insurance Company of the Southeast (SICSE) were redomesticated to Indiana. With the approval of the redomestications effective June 30, 2008, the Indiana Department of Insurance will perform its own financial examination of those companies.

We conducted our examination in accordance with the 2007 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company. In order to meet these objectives, we obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated its system of internal controls and procedures used to mitigate those risks identified. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

According to the NAIC Handbook, "One of the increased benefits of the enhanced risk-focused approach is to include ... consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the "financial" and "enterprise" risks that existed at the examination "as of" date and will be positioned to assess "financial" and "enterprise" risks that extend or commence during the time the examination was conducted and "prospective" risks which are anticipated to arise or extend past the point of examination completion. Using this approach, examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."

The Company has adopted an Enterprise Risk Management ("ERM") framework for proactively addressing and mitigating risks, including prospective business risks. The Company's Corporate Governance was found to be effective, contributing to its entity level (or monitoring level) controls, including prospective risks. Refer to the "Corporate Governance" section above for more detailed information.

KPMG LLP ("KPMG") was retained by the Company to audit its statutory based financial statements as of December 31, 2007 as well as all prior years under examination. In addition to the statutory based financial statements, KPMG audited the Company's financial statements in accordance with accounting principles generally accepted in the United States ("US GAAP"). KPMG also issued reports for all years under examination in relation to the parent company's financial reporting controls as part of its Sarbanes-Oxley ("SOX") reporting. They concluded that the statutory financial statements presented fairly in all material respects, the financial position of the Company at the indicated audit dates and that controls over financial reporting were designed and operating effectively. The examiners performed selected re-testing of KPMG's SOX testing of key internal controls, on a scope basis. Where available, the examiners relied upon the work performed by the independent accountants as prescribed by the NAIC Handbook.

The Company has established an Internal Audit Department (“IAD”), which is independent of management, and serves the Audit Committee of the Board of Directors of Selective Insurance Group, Inc. (“SIGI”), the Company’s parent (“the Audit Committee”). The Audit Committee is comprised entirely of external, independent directors. The IAD also assists all levels of management by reviewing and testing financial and operational controls and processes established by management to help ensure compliance with laws, regulations, and company policy.

The Company’s SOX testing is performed by the individual business units, and the IAD serves primarily in an advisory role regarding SOX compliance efforts. During the course of this examination, consideration was given to the work performed by the business units to comply with SOX. The examiners performed selected re-testing of the Company’s business unit SOX testing of key internal controls, on a scope basis. To the extent possible, the examiners relied upon the Company’s SOX testing as prescribed by the NAIC Handbook.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following recommendations were made in the prior examination report as of December 31, 2002.

1. It is recommended that the Company comply with the requirements of SSAP#63 by reporting the results of all inter-company pooling the same as all other reinsurance.
2. It is recommended that management should continue the process of developing business continuity plans and update them based on the results of testing performed.
3. It is recommended that the Company enter into a custodian agreement with its custodian bank in the format advocated by the NAIC and with the required clauses to protect the Company against any losses due to the actions of the custodian bank.
4. It is again recommended that the Company comply with N.J.S.A 17:24-12 and maintain its securities within the geographical limits of the State of New Jersey.
5. It is recommended that the Company escheat funds to the State and continue to do so as they become due.
6. It is recommended that, in the future, the Company have detailed listings, by policy, of what comprises the assets, Agents’ balances or uncollected premiums, as shown in the Company’s financial statements. Such detailed listings are to be made available to the examiners.
7. It is recommended that the Company discontinue the practice of undisclosed inter-company loans, or execute a formal inter-company loan agreement. This agreement

should specify the terms and conditions of any loans, and be submitted for approval to the NJDOBI prior to execution.

During the course of the examination, it was determined that the Company had complied with all of the recommendations stated above.

COMPANY HISTORY

General Overview

The Company was incorporated as a mutual insurance company under the laws of the State of New Jersey on December 22, 1925. The certificate of incorporation was amended on December 8, 1928 to change the corporate form from a mutual to a stock company.

Effective January 1, 1958, the merger of Selected Risks Fire Insurance Company and Selected Risks Indemnity Company, the surviving Corporation became the Selected Risks Insurance Company.

On December 5, 1985, the stockholder approved an amendment to the certificate of incorporation to change the name of the Company from Selected Risks Insurance Company to Selective Insurance Company of America. This amendment was filed with the Commissioner of Insurance of the State of New Jersey on January 1, 1986.

On November 19, 1998, the Company filed an amendment to the Certificate of Incorporation to include a new provision which would permit the Company to issue both participating and nonparticipating policies.

Selective is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1. Accordingly, the company has registered with the State of New Jersey under the registration filed by its parent, SIGI.

The Company is a stock authorized company, authorize to write multiple lines of business which are a, b, d, e, f, g, j, k, l, m, n, and o per N.J.S.A. 17:17-1; and Health Insurance as defined in the Life and Health Insurance Code; N.J.S.A. 17B:17-4; and Legal Services Insurance pursuant to N.J.S.A. 17:46C-4a.(1). The Company conducts business through independent insurance agents. According to the recent business plan, SICA and its insurance company affiliates sell their products and services through approximately 880 agents in approximately 40 jurisdictions.

The Company's statutory home office in the State of New Jersey is located at 40 Wantage Avenue, Branchville, New Jersey 07890.

Capital Stock

The Company has five million authorized shares issued with a \$4.00 par value per share and 1.1 million shares outstanding. SIGI owns 100% of the Company's outstanding capital stock. The Company has no preferred stock outstanding.

Dividends to Stockholders

New Jersey insurance law provides that, except in the case of extraordinary dividends or distributions, all dividends or distributions paid by the Company may be declared or paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and revaluation of assets.

In addition, the Company must obtain approval from the NJDOBI prior to paying a dividend if the dividend, together with other dividends or distributions made within the preceding twelve months, would exceed the specified statutory limit. The current statutory limitation applicable to New Jersey property and casualty insurers generally is the greater of 10% of the prior calendar year's statutory surplus or the prior calendar year's statutory net gain from operations excluding realized investment gains and losses. Based on the 2006 earnings, there is capacity to pay a dividend of \$78.1 million without prior approval from the NJDOBI in 2007. There were no dividends to stockholders declared and unpaid as of the year ended December 31, 2007. The portion of profits on participating policies and contracts is limited pursuant to N.J.S.A. 17B:18-46. The limitations did not restrict the Company's ability to dividend the amounts referenced above.

During the examination period, the Company declared and paid dividends totaling \$204.7 million to SIGI. Any extraordinary dividends during such period were approved by the NJDOBI. The dividends were paid as follows:

<u>Year</u>	<u>Amount</u>
2003	\$ 11,000,000
2004	11,000,000
2005	28,017,000
2006	76,596,000
2007	<u>78,056,000</u>
Total	<u>\$204,669,000</u>

MANAGEMENT AND CONTROL

The Company's By-laws state that the number of directors who shall serve on the Board be not less than one nor more than 15, the exact number of which shall be fixed from time to time by resolution of the Board. N.J.S.A. 17:27A – 4(d)(3) requires that no less than one-third of the directors be directors who are not officers or employees of the corporation or of any entity controlling, controlled by or under common control with the corporation and who are not beneficial owners of a controlling interest in the voting securities of the corporation or any such entity ("Independent Directors"). N.J.S.A. 17:27A – 4(d) (5) provides that the provisions of paragraphs (3) and (4) of subsection N.J.S.A. 17:27A – 4(d) shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs. SIGI is the parent of the Company and SIGI has a board of directors and committees thereof that substantially meet the requirements of N.J.S.A. 17:27A – 4(d)(3) and (4). The Company, therefore, was found to be in compliance with these statutes.

The directors of SIGI as of December 31, 2007 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Gregory E. Murphy	Chairman of the Board, President and CEO, SIGI

Paul D. Bauer	Retired Financial Executive; Former Executive Vice President and Chief Financial Officer, Tops Markets, Inc.
W. Marston Becker	Chairman and CEO, Max Capital Group, Ltd.
A. David Brown	Senior Vice President, Human Resources, Linens and Things, Inc.
John C. Burville	Retired Insurance Consultant to the Bermuda Government
William M. Kearns, Jr.	Chairman and Co-CEO, Keefe Managers, LLC
Joan M. Lamm-Tennant	Global Chief Economist and Risk Strategist, Guy Carpenter & Company, LLC
S. Griffin McClellan III	Retired Banking Executive
Ronald L. O'Kelley	Chairman and CEO, Atlantic Coast Venture Investments Inc.
John F. Rockart	Senior Lecturer Emeritus, Massachusetts Institute of Technology
William M. Rue	President, Chas E. Rue & Sons, Inc. t/a Rue Insurance
J. Brian Thebault	Chairman, Earth-Thebault

The executive officers of the Company as of December 31, 2007 were as follows:

<u>Executive Officer</u>	<u>Title</u>
Gregory E. Murphy	Chairman of the Board, President and CEO
Richard F. Connell	Senior EVP, Chief Administrative Officer
Kerry A. Guthrie	EVP, Chief Investment Officer
Dale A. Thatcher	EVP, Chief Financial Officer and Treasurer
Ronald J. Zaleski	EVP, Chief Actuary
Victor N. Daley	EVP, Human Resources
Michael H. Lanza	EVP, General Counsel
Mary T. Porter	EVP, Chief Claims Officer
John J. Marchioni	EVP, Chief Field Operations Officer
Eduard J. Pulkstenis	EVP, Chief Underwriting Officer
Sharon R. Cooper	SVP, Director of Communications

The standing committees of the Board of Directors of SIGI and the members serving on such committees as of December 31, 2007, were as follows:

Audit Committee

Paul D. Bauer, Chairman
Joan M. Lamm-Tennant
John F. Rockart
J. Brian Thebault

Salary and Employees Benefits Committee

J. Brian Thebault, Chairman
Paul D. Bauer
John C. Burville
Ronald L. O'Kelley

Finance Committee

William M. Rue, Chairman
W. Marston Becker
William M. Kearns, Jr.
S. Griffin McClellan III
Gregory E. Murphy
Ronald L. O'Kelley

Corporate Governance and Nominating Committee

A. David Brown, Chairman
William M. Kearns, Jr.
Ronald L. O'Kelley
John F. Rockart

The Audit Committee, Salary and Employee Benefits Committee, and Corporate Governance and Nominating Committee of the Board of Directors of SIGI are each comprised entirely of Independent Directors.

Conflict of Interest Procedures

The Company has established a procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, and employees that are in conflict with the official duties of such persons.

Each year, the Company requires its directors, officers and employees to sign a conflict of interest questionnaire and to divulge any potential conflicts of interest that could have an impact on the way they conduct the Company's business. A review of the conflict of interest questionnaires revealed conflicts were being reported as instructed.

Corporate Governance

The Company has adopted an ERM framework for proactively addressing and mitigating risks, including prospective business risks. Exhibit M of the NAIC Handbook was utilized as guidance for assessing corporate governance. Overall, it was determined that the Company's corporate governance structure is effective. The corporate governance framework sets an appropriate "tone at the top," supports a proactive approach to operational risk management, and contributes to an effective system of internal control. It was found that the Board and key executives encourage integrity and ethical behavior throughout the Company and senior management promotes a corporate culture that acknowledges, understands, and maintains an effective control environment.

Management has a strong and effective approach to identifying and mitigating risks across the Company, including prospective business risks. The Company deals proactively with its areas of risk and is knowledgeable about mitigation strategies. Management discusses the significant issues and reacts to changes in the environment with a clear commitment to address risk factors and manage the business accordingly. The Company's overall risk management process is well-defined and takes a proactive approach to identifying, tracking, and dealing with current significant and emerging risk factors.

The Company's IAD is independent of management and reports directly to the Audit Committee. The IAD assists all levels of management by reviewing and testing financial and operational controls and processes established by management to help ensure compliance with laws, regulations, and company policy.

Overall, it was determined that the Company's Internal Audit function is adequate. There are some aspects of a "world class" function in place, but there are areas that need improvement such as ensuring recommendations are implemented and we believe that "high-risk" areas should be reviewed on an annual basis. The Company's SOX testing is performed by the individual business units, and the IAD serves primarily in an advisory role regarding SOX compliance efforts. Therefore, the examiners did not rely upon the work performed by the IAD regarding SOX compliance.

CORPORATE RECORDS

A review was made of the Board minutes and committee minutes for the period of examination. This examination determined that the minutes adequately approve and support the Company's transactions and events. During the review of these minutes, it was determined that the Company directors had reviewed the prior examination report.

PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance company holding system as defined in N.J.S.A. 17:27A-1 et seq. Accordingly, the Company has filed with the State of New Jersey an insurance holding company registration as is required under N.J.S.A. 17:27A-3.

The following abridged organizational chart at December 31, 2007, identifies the domestic insurance companies within the organization.

Selective Insurance Group, Inc. (non-insurer) (ultimate parent)

- Selective Insurance Company of America (insurer)
- Selective Way Insurance Company (insurer)
- Selective Insurance Company of South Carolina (insurer)
- Selective Insurance Company of New York (insurer)
- Selective Insurance Company of the Southeast (insurer)
- Selective Auto Insurance Company of New Jersey (insurer)
- Selective Insurance Company of New England (insurer)

The Company owed the following amounts to the following affiliated companies as of December 31, 2007:

<u>Affiliate</u>	<u>Carrying Value</u>
SWIC	\$ 14,209,468
SISC	\$ 10,542,022
SISE	\$ 5,428,269
SAICNJ	\$ 1,899,555

Intercompany Agreements

Effective July 1, 1995, the Company was a party to a Service Agreement with SWIC, and SICSC, and SICSE, with SICNE as an additional signatory on January 1, 2004 and SAICNJ as an additional signatory on July 27, 2006. Under this agreement, the Company performs certain administrative and other services for its affiliates in their operations and makes use of certain properties, equipment, and facilities. The Company allocates these expenses back to its affiliates to be reimbursed based on the percentages set forth in the Amended and Restated Pooling Agreement (see "Reinsurance").

Effective July 1, 2006, the Company entered into an Amended and Restated Reinsurance Pooling Agreement with SWIC, SICSC, SICSE, SAICNJ, SICNE and SICNY (collectively called "pool members"). Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to the Company, the lead company in the Pool. See "Reinsurance" for further details.

Effective July 1, 1995, the Company entered into a Tax Allocation Agreement which covers the allocation, settlement and financial statement presentation of current federal income taxes among companies in the consolidated income tax return of SIGI and its subsidiaries.

Effective July 1, 1995, the Company entered into a Joint Investment Operations Agreement with its insurance company affiliates (with the exception of SICNY). Under this agreement,

the Company shall incur and pay expenses, disburse, collect and pay monies and undertake any and all other activities involving the operation of such joint investment operations on behalf of the affiliated companies. The companies agree that the expenses, costs and other items incurred with the joint investment operations will be allocated in the same proportion that the investable assets of each company bears to the total sum of all the assets.

Effective July 1, 1993, the Company entered into an Investment Services Agreement with SICNY whereby the Company performs certain investment and related services to help achieve certain operating economies and improve investment performance.

Effective June 1, 2006, the Company entered into an Intercompany Demand Revolving Loan Agreement with SWIC, SAICNJ, SICSC, SICSE and SICNE. Under this agreement, the Company agrees to lend amounts to the parties to the agreement as they may request, provided that the total outstanding principal amount of loans shall be in the Company's sole discretion and shall at no time exceed 5% of the Company's admitted assets as of December 31 of the preceding calendar year. The borrowing parties promise to repay the Company on demand. Interest on the loans is to be paid monthly at the Federal Funds Effective Rate.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

As of December 31, 2007, the Company, on behalf of itself and its affiliates, maintains a fidelity bond with the Federal Insurance Company and has a single loss limit of \$5 million and a shared aggregate limit of liability of \$10 million.

As of December 31, 2007, the Company is also party to an insurance program whereby its parent, SIGI, has purchased policies to protect itself and its subsidiaries in the following areas, as applicable:

Property - policy provides protection for buildings and contents, business income, earthquake and inland marine coverage. It is underwritten by Selective Way Insurance Company and has the following limits:

- Building & Business Personal Property - \$111,563,314
- Business Income - \$24,305,000
- Difference In Conditions - \$50,000,000
- Inland Marine - \$24,305,000

Boiler & Machinery - provided by Hartford Steam Boiler Co. with a limit of \$100 million.

Workers' Compensation - provided by Selective Insurance Company of South Carolina for all Selective employees except those in NE, CA, FL, MA and TX. Coverage for those states is provided by Chubb Insurance Company. Both policies provide the following limits:

- Workers' Compensation - statutory requirements
- Employers' Liability - \$1 million each accident, \$1 million policy limit and \$1 million each employee.

Directors & Officers - total of 10 layers providing a total limit of \$100 million with an additional \$30 million of Side A coverage. There are 9 carriers that provide the 10 layers of coverage.

Fiduciary Liability - provided by Travelers Insurance Company with a limit of \$15 million.

Pollution Liability - provided by Zurich American Insurance Company with limits of \$2 million each claim and \$2 million total of all claims.

General Liability - provided by Selective Way Insurance Company with limits of \$2 million each occurrence and \$3 million aggregate.

Automobile Liability - provided by Selective Way Insurance Company with a \$2 million combined single limit.

Professional Liability, Errors & Omissions - provided by SICA with a \$17 million limit of liability per claim and in the aggregate.

Commercial Umbrella Liability - first layer provided by Selective Way Insurance Company with a limit of \$15 million; second layer provided by Ohio Casualty Insurance Company with a limit of \$25 million in excess of \$15 million.

Employment Practices Liability - provided by ACE Westchester Fire Insurance Company with an aggregate limit of liability of \$10 million.

ERISA Bond - provided by Federal Insurance Company with a \$3 million limit of liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has a flexible benefits program in which employees are encouraged to design their own benefits package by spending flex dollars credited to them by the Company.

Following are the major components of the benefits available to employees. Some of them are part of the flex spending program while others are either funded by the Company or by the employee.

1. Medical Plan, including a Prescription Drug Plan
2. Dental Coverage
3. Group Life Insurance and Accidental Death and Dismemberment
4. Post-Retirement Life Insurance
5. 401(K) Retirement Savings Plan
6. Retirement Income Plan (Pension Plan-closed to new participants effective 12/31/05)
7. Employee Stock Purchase Savings Plan
8. Short-Term Disability Program
9. Long-Term Disability Program
10. Healthcare Flexible Spending Account Program
11. Dependent Care Flexible Spending Account

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is 100% owned by SIGI. SIGI is a publicly traded stock company, which through its insurance subsidiaries writes a broad range of property and casualty insurance products.

SICA and its affiliated insurance companies provide a broad range of insurance and alternative risk management products and services to businesses, public entities and individuals. As of December 31, 2007 SICA and its affiliated insurance companies distributed these products and services through approximately 880 independent agents primarily in 21 states.

The Company has organized its business around its customers, developing and marketing its products through Strategic Business Units (SBUs). SBUs cut across insurance lines and functions to focus on meeting and exceeding the needs of its specific customer group. This approach allows the Company to both identify new business opportunities and efficiently track and correct under-performing business classes.

The SBUs provide a variety of support services to the Company's field operations and agents. These support services include analyzing underwriting results, developing programs to improve profitability in under performing business classes, establishing underwriting and quality control standards, designing marketing campaigns and conducting technical training programs.

The Company is committed to the independent agency system and works closely with agents and field underwriters to identify new business opportunities and to develop and market products.

REINSURANCE

Reinsurance Agreements with Affiliates

The Company is the lead participant in the Amended and Restated Reinsurance Pooling Agreement.. Under this agreement, each pool member cedes 100% of its underwriting activity (net of inuring third party reinsurance) to the Company. The remaining net underwriting activity is retroceded to each pool member in accordance with each company's pooling percentage as set forth in the Amended and Restated Reinsurance Pooling Agreement.

The pooled percentages as of December 31, 2007, by Company are as follows:

- Selective Insurance Company of America – 49.5%
- Selective Way Insurance Company – 21%
- Selective Insurance Company of the Southeast – 7%
- Selective Insurance Company of South Carolina – 9%
- Selective Insurance Company of New York – 7%
- Selective Auto Insurance Company of New Jersey – 6%

- Selective Insurance Company of New England – 0.5%

Reinsurance Agreements with Non-Affiliates

The Company assumes required business from its participation in various voluntary and involuntary pools.

The Company had the following reinsurance program in effect at December 31, 2007:

CASUALTY

2007 Workers Compensation & Casualty Excess of Loss Treaty (various reinsurers)

	Maximum Retention <u>Each Occurrence</u>	Reinsurance Limit <u>Each Occurrence</u>	Total <u>Limits</u>
<u>Workers Compensation Only</u>			
	\$2,000,000	\$3,000,000	\$5,000,000
<u>First Casualty Layer</u>	\$5,000,000	\$7,000,000	\$12,000,000
<u>Second Casualty Layer</u>	\$12,000,000	\$9,000,000	\$21,000,000
<u>Third Casualty Layer</u>	\$21,000,000	\$9,000,000	\$30,000,000
<u>Fourth Casualty Layer</u>	\$30,000,000	\$20,000,000	\$50,000,000
<u>Fifth Casualty Layer</u>	\$50,000,000	\$40,000,000	\$90,000,000

Company or its affiliates, as the case may be, retains 25% share of the reinsurance limit for the fourth layer. The Company or its affiliates, as the case may be, retains first \$2 million per risk for workers compensation only and \$5 million per risk all other casualty lines.

PROPERTY

2007 Property Excess of Loss Treaty (various reinsures)

	Maximum Retention <u>Each Occurrence</u>	Reinsurance Limit <u>Each Occurrence</u>	Total <u>Limits</u>
<u>First Layer</u>	\$2,000,000	\$8,000,000	\$10,000,000
<u>Second Layer (A)</u>	\$10,000,000	\$15,000,000	\$25,000,000

The second layer (B) is for policies written on a blanket limit. There is an additional \$5 million each loss and each occurrence in excess of \$25 million provided under Section A of second layer. Company retains first \$2 million per risk.

2007 Property Catastrophe Excess of Loss (various reinsurers)

	Maximum Retention <u>Each Occurrence</u>	Reinsurance Limit <u>Each Occurrence</u>
<u>First Layer</u>	\$40,000,000	\$100,000,000
<u>Second Layer</u>	\$100,000,000	\$175,000,000

<u>Third Layer</u>	\$175,000,000	\$325,000,000
<u>Fourth Layer</u>	\$325,000,000	\$375,000,000

Each layer is subject to a 5% co-participation by the Company and its affiliates, as the case may be. The total program provides for 95% of \$335 million in excess of a \$40 million retention or \$334.5 million ground up limit net of co-participation.

OTHER REINSURANCE

2007 Surety and Fidelity Excess of Loss

	<u>Maximum Retention Each Occurrence</u>	<u>Reinsurance Limit Each Occurrence</u>	<u>Total Limits</u>
<u>First Layer</u>	\$1,000,000	\$3,000,000	\$4,000,000
<u>Second Layer</u>			
Contract Surety	\$4,000,000	\$5,000,000	\$9,000,000
Commercial Surety	\$4,000,000	\$2,000,000	\$6,000,000

Company retains the first \$1 million and 10 percent co-participation of each layer.

ACCOUNTS AND RECORDS

Evaluation of Controls in Information Systems (“IS”)

The IS portion of the examination was performed in accordance with the NAIC Handbook. The review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, and mainframe controls.

The Information Technology (“IT”) examination team prepared a “Risk Universe” which compared the Company’s IT key SOX controls to the COBIT framework, a widely-accepted control framework for information technology. This Risk Universe tool mapped the Company’s controls to the COBIT objectives and the Company’s external auditor’s work. This key tool allowed the examiners to determine gaps in potential coverage. The IT examination team performed a “desk review” of the work of the Company’s IT workpapers (i.e., the Business Application Profiles and SOX Folders for 2005 and 2006 as well as the external auditors, KPMG) to assess quality of work and thoroughness of testing.

The IT examination team also reviewed relevant work performed by the Company’s internal auditors (i.e., in-house internal auditors or PricewaterhouseCoopers, the Company’s outsourced vendor assisting with internal audits). The result of this extensive desk review resulted in the IT examination team concluding that adequate testing/coverage has been performed by these 3 key groups. This desk review, plus the review of the NAIC Handbook Exhibit C documents, constituted the bulk of the work performed by the examiners related to IT risks and controls.

As a result of the procedures performed, the IT Examination Team obtained reasonable assurance that IT general controls and general application controls were functioning as

management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

Administrative Offices

While the primary management and financial reporting activities and the Northeast region operations are conducted from the Home Office in Branchville, New Jersey, the Company maintains other administrative offices, including the following as of December 31, 2007:

- Parsippany, NJ – Investments
- Glastonbury, CT – Information Systems
- Richmond, VA – Claims Service Center
- Charlotte, NC – Southern region field office
- Columbus, OH – Great Lakes region field office
- Hamilton, NJ – New Jersey region field office
- Allentown, PA – Mid-Atlantic region field office
- Carmel, IN – Heartland region field office

FINANCIAL STATEMENTS

Net Admitted Assets as of December 31,	<u>2007</u>	<u>2003</u>
Bonds NOTE 1	\$ 1,491,503,522	\$ 999,186,783
Preferred stocks		47,444,883
Common stocks	131,150,132	221,401,606
First liens - mortgage loans on real estate		38,271
Cash & cash equivalents	(32,894,610)	(25,782,326)
Short-term investments	54,915,319	14,066,022
Other invested assets	187,681,737	35,617,006
	<hr/>	<hr/>
Subtotal cash and invested assets	1,832,356,100	1,291,972,245
	<hr/>	<hr/>
Investment income due and accrued	17,688,614	11,624,669
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection	117,681,582	228,508,195
Deferred premiums and agents' balances and installments booked but deferred and not yet due	198,363,351	168,581,389
Accrued retrospective premiums	2,444,513	2,329,103
Reinsurance:		
Amounts recoverable from reinsurers	34,960,363	\$82,087,660
Other amounts receivable under reinsurance contracts	204,028	34,119,119
Net deferred tax asset	44,491,725	40,726,596
Guaranty funds receivable or on deposit	1,111,727	310,067
Electronic data processing equipment	4,691,388	2,701,151
Receivable from parent, subsidiaries and affiliates	2,883,068	
Aggregate write-ins for invested assets	24,187,860	9,050,475
	<hr/>	<hr/>
Total Net Admitted Assets	<u>\$ 2,281,064,319</u>	<u>\$ 1,872,010,669</u>

FINANCIAL STATEMENTS (Continued)

Liabilities as of December 31,	2007	2003
Losses	\$ 967,210,007	\$ 674,810,508
Reinsurance payable on paid losses and loss adjustment expense	40,300,086	98,376,791
Loss adjustment expenses	177,272,317	104,512,566
Commissions payable, contingent commissions or similar charges	29,788,067	29,812,751
Other expenses	22,086,581	17,384,671
Taxes, licenses and fees due or accrued	13,148,194	12,744,393
Current federal and foreign income taxes	11,499,287	8,422,650
Unearned premiums	375,786,977	331,395,875
Advance premium	1,645,015	1,296,036
Dividends declared and unpaid		
Policyholders	2,797,168	1,572,868
Ceded reinsurance premiums payable	56,937,838	134,572,673
Funds held by company under reinsurance treaties	17,183	1,674
Amounts withheld or retained by company for account of others	2,016,945	1,558,934
Provision for reinsurance	73,134	1,371,087
Payable to parent, subsidiaries and affiliates	32,079,314	48,422,010
Aggregate write-ins for liabilities	13,043,536	28,751,768
Total Liabilities	\$ 1,745,701,649	\$1,495,007,255

FINANCIAL STATEMENTS (Continued)

Capital and Surplus as of December 31,	2007	2003
Common capital stock	\$ 4,400,000	\$ 4,400,000
Gross paid in and contributed surplus	119,313,867	99,313,867
Unassigned funds (surplus)	411,648,803	273,289,547
Total Capital and Surplus	535,362,670	377,003,414
Total Liabilities, Capital, and Surplus	\$ 2,281,064,319	\$ 1,872,010,669

FINANCIAL STATEMENTS (Continued)

Summary of Operations for the Year Ended December 31,	2007	2003
<u>Underwriting Income</u>		
Premiums earned	\$ 763,189,192	\$ 638,038,529
Deductions:		
Losses incurred	417,660,592	382,272,744
Loss expenses incurred	83,779,912	68,926,146
Other underwriting expenses incurred	246,668,073	206,542,490
Aggregate write-ins for underwriting deductions	276,774	2,387,082
Total underwriting deductions	748,385,351	660,128,462
Net underwriting gain (loss)	14,803,841	(22,089,933)
<u>Investment Income</u>		
Net investment income earned	90,457,693	58,821,255
Net realized capital gains	16,911,869	7,839,125
Net investment gain	107,369,562	66,660,380
<u>Other Income</u>		
Net loss from agents' or premium balances charged off	(1,401,351)	(971,312)
Finance and service charges not included in premiums	2,119,410	1,451,321
Aggregate write-ins for miscellaneous income	1,355,444	634,594
Total other income	2,073,503	1,114,603
Net income before dividends to policyholders and before federal and foreign income taxes	124,246,906	45,685,050
Dividends to policyholders	3,564,923	2,804,758
Net income after dividends to policholders but before federal and foreign income taxes	120,681,983	42,880,292
Federal and foreign income taxes incurred	19,269,905	11,156,168
Net Income	101,412,078	31,724,124

FINANCIAL STATEMENTS (Continued)

**Changes in Capital and
Surplus for the year ended
December 31,**

	2007	2006	2005	2004	2003	2002
Surplus as regards policyholders, December 31, Previous Year	<u>\$ 534,320,089</u>	<u>\$ 519,670,803</u>	<u>\$ 463,502,771</u>	<u>\$ 377,003,414</u>	<u>\$ 304,046,946</u>	<u>\$ 276,198,029</u>
Net income (loss)	101,412,078	94,285,786	82,634,582	83,679,267	31,724,124	15,392,146
Change in net unrealized gains or (losses)	(22,439,111)	(1,783,242)	(5,561,419)	10,043,811	32,905,014	(22,499,943)
Change in net deferred income	(4,565,494)	334,510	6,416,242	(4,846,176)	4,666,770	9,323,208
Change in non-admitted assets	(7,407,898)	(2,139,353)	1,466,372	(12,324,402)	10,975,578	(4,149,817)
Change provision for reinsurance	40,775	1,052,409	(742,088)	946,857	(269,311)	255,452
Surplus adjustments paid in				20,000,000		42,000,000
Dividends to stockholders	(78,056,000)	(76,596,000)	(28,017,000)	(11,000,000)	(11,000,000)	(12,100,000)
Aggregate write-ins for gains and losses in surplus	<u>12,058,231</u>	<u>(504,824)</u>	<u>(28,657)</u>	<u>-</u>	<u>3,954,293</u>	<u>(372,129)</u>
Net change in capital and surplus for the year	<u>1,042,581</u>	<u>14,649,286</u>	<u>56,168,032</u>	<u>86,499,357</u>	<u>72,956,468</u>	<u>27,848,917</u>
Capital and surplus, December 31, Current Year	<u><u>\$ 535,362,670</u></u>	<u><u>\$ 534,320,089</u></u>	<u><u>\$ 519,670,803</u></u>	<u><u>\$ 463,502,771</u></u>	<u><u>\$ 377,003,414</u></u>	<u><u>\$ 304,046,946</u></u>

NOTES TO THE FINANCIAL STATEMENTS

The examination of the Company's financial position as of December 31, 2007, resulted in the following notes and comments that are deemed to require special explanation or description.

1. Statutory Deposits

The Company is maintaining statutory deposits with the following jurisdictions as of December 31, 2007:

<u>Jurisdiction</u>	<u>Description of Deposit</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Arkansas	US Treasury Notes	\$ 183,235	\$ 204,071
California	US Treasury Notes	122,157	136,047
Delaware	US Treasury Notes	183,235	204,071
Georgia	US Treasury Notes	183,235	204,071
Massachusetts	US Treasury Notes	702,402	782,270
Nevada	US Treasury Notes	244,314	272,094
New Jersey	US Treasury Notes	3,053,923	3,401,174
North Carolina	US Treasury Notes	1,669,548	1,718,465
Oregon	US Treasury Notes	451,980	503,374
South Carolina	US Treasury Notes	366,471	408,141
	Totals	<u>\$7,160,500</u>	<u>\$7,833,778</u>

As of December 31, 2007, the deposits held by the State of New Jersey, the Company's state of domicile, are held for the benefit of all policyholders. All other deposits are held for the benefit of specific jurisdictions and limited groups of policyholders.

SUBSEQUENT EVENTS

The subsequent events period considered for the examination was December 31, 2007 through the date of the examination report incorporated herein.

In February 2008, the Company announced a reduction in its workforce of approximately 80 positions. These changes are anticipated to have a related one-time pre-tax pooled cost of approximately \$1.8 million in the first quarter of 2008 and annualized pre-tax pooled savings of approximately \$3.5 million.

SUMMARY OF EXAMINATION RECOMMENDATIONS

The full scope coordinated multi-state risk focused examination of the Company yielded no reportable recommendations.

CONCLUSION

The undersigned hereby certify that an examination has been made of the **Selective Insurance Company of America** and the foregoing report is true to the best of our knowledge and belief.

Respectfully submitted,

_____/S/
Rachelle Gowins, CFE
Examiner-In-Charge
Representing the State of New Jersey

Under the Supervision of

_____/S/
Robert Redden, CFE
Reviewer
Representing State of New Jersey

State of Texas
County of Collin

Subscribed and sworn to before me, Patrick Cory Mock, on this 17th day of February, 2008.

_____/S/
Patrick Cory Mock
Notary Public of Texas

My commission expires: April 29th, 2012